

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

YOUNG BROTHERS, LIMITED)

DOCKET NO. 2017-0363

For Approval of a General Rate)
Increase and Certain Tariff)
Changes.)
_____)

DECISION AND ORDER NO. 36140

PUBLIC UTILITIES
COMMISSION

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DECISION AND ORDER

By this Decision and Order, the commission approves as just and reasonable YOUNG BROTHERS, LLC's ("Young Brothers")¹ and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY's ("Consumer Advocate") stipulated increase in Young Brothers' intrastate freight revenues of \$3,401,150, or approximately 4.32 percent over intrastate revenues at present rates, which represents an increase in Young Brothers' intrastate freight revenue requirement to \$74,432,141 for the 2018 test year.

In doing so, the commission approves, in part, the January 4, 2019 Amended Stipulation of the Parties for Full Settlement ("Amended Stipulation") jointly filed by Young Brothers and the Consumer Advocate.

¹On December 31, 2018, the commission filed Order No. 36043, that noted effective January 1, 2019, the water carrier's legal name changed from Young Brothers, Limited to Young Brothers, LLC.

Originally, the commission rejected without prejudice Young Brothers' December 20, 2017 Application as being "incomplete as originally filed," due to Young Brothers' belated submission "of more than 1,000 pages of corrected and/or previously-omitted documents that relate to the substantive testimony and evidence in support of its requested rate increase[.]"²

On March 14, 2018, the commission approved the Parties' stipulation, whereby Young Brothers shall refile the Application "in its entirety" by March 16, 2018, to "supersede any and all previous versions of YB's testimony, exhibits, and workpapers[.]"³

Young Brothers' March 16, 2018 Application requested approval of a 11.05% rate increase, or an increase in revenues of \$7,842,000, based on a proposed intrastate revenue requirement of \$78,830,233 and a rate of return of 11.09%, for the 2018 Test Year.

²Order No. 35260, "REJECTING DECEMBER 20, 2017 APPLICATION WITHOUT PREJUDICE AND DIRECTING THE SUBMISSION OF SUPPLEMENTAL INFORMATION[.]" filed on January 30, 2018, at 1. Young Brothers' Application was deemed refiled on February 9, 2018 upon its submission of revised calculations and exhibits; however, on February 23, 2018, Young Brothers filed supplemental information that amended its requested revenue increase.

³Order No. 35339, "GRANTING THE PARTIES' JOINT MOTION AND APPROVING STIPULATION[.]" filed on March 14, 2018, at 1-2. The commission noted that refiling the Application in its entirety will ensure that "at the outset, ratepayers and the public are advised of any changes to Young Brothers' requested rate increase," because Young Brothers has "filed approximately 1,900 pages of amended and supplemental supporting documents, which have substantively modified both the amount and evidence in support of Young Brothers' requested rate increase." Id. at 2-3.

Thereafter, the Parties twice stipulated to amend their agreed-upon filing dates "to afford the Consumer Advocate an opportunity to issue additional information requests . . . regarding updated/corrected information that YB recently submitted while providing the Consumer Advocate and YB sufficient time to file their direct testimonies and rebuttal testimonies, respectively."⁴

The Consumer Advocate's direct testimonies proposed an increase of \$913,403 for Young Brothers' intrastate revenue requirement, based on a rate of return on 7.92%.

In response, Young Brothers' rebuttal testimonies indicated that Young Brothers' proposed revenue increase was revised to \$5,251,123, or approximately 7.39%.

The commission approved three extensions for the Parties to submit their settlement agreement and/or stipulation (from September 6, 2018 to October 2, 2018, then October 2, 2018, to October 9, 2018, and from October 9, 2018, to October 19, 2018).⁵

⁴July 27, 2018 "Joint Request to Amend Pending Procedural Schedule."

⁵See Order No. 35706, "ADDRESSING THE PARTIES' JOINT REQUEST FOR EXTENSION OF TIME[,]" filed on September 21, 2018; Order No. 35744, "ADDRESSING THE PARTIES' MOTIONS FOR ENLARGEMENT OF TIME AND JOINT REQUEST TO WAIVE THE EVIDENTIARY HEARING[,]" filed on October 11, 2018.

On October 19, 2018, the Parties filed the Stipulation of the Parties for Full Settlement ("Stipulation"), which states that the Parties reached a global settlement of all matters in this proceeding and "results in a required revenue increase of \$3,401,150[.]"⁶

On November 13, 2018, the Parties filed a Joint Letter providing Exhibits B and C "supporting the Stipulation of the Parties for Full Settlement," with the stipulated rate design and changes to Young Brothers' Local Freight Tariff No. 5-A. On November 14, 2018, Young Brothers filed paper copies of Exhibit A of the Supporting Documentation.

On December 6, 2018, in Order No. 35926, the commission instructed the Parties "to resubmit the Stipulation and Supporting Documentation within thirty days" because "the Parties' justification and evidence in support of the stipulated revenue requirements, and other material components of the test-year results of operations, are incomplete and lacking" and "certain figures and calculations in the Supporting Documentation do not correspond with the Stipulation."⁷

⁶Stipulation at 6. The Parties stated on October 19, 2018 that they shall submit the Stipulation's "supporting schedules and other documentation shortly" ("Supporting Documentation"). Id.

⁷Order No. 35926, "INSTRUCTING THE PARTIES TO RESUBMIT STIPULATION AND SUPPORTING DOCUMENTATION[,]" filed on December 6, 2018, at 5-6.

The commission observes that Young Brothers is responsible for ensuring the completeness and timeliness of its submissions, and in future proceedings, Young Brothers is strongly directed to improve the quality of its docket filings.

Although the commission approves the Parties' stipulated increase in Young Brothers' intrastate freight revenues of \$3,401,150, representing an increase in Young Brothers' intrastate freight revenue requirement to \$74,432,141 for the 2018 test year, the Amended Stipulation is rejected, in part, as the commission declines to ratify or adopt the Parties' various stipulated supporting figures and calculations, due to the commission's reservations with certain ratemaking methodologies employed by the Parties and the adequacy of certain evidentiary support in the docket record.

Such figures in the Amended Stipulation are not adopted by the commission. In addition, the methodologies used by the Parties in reaching their global settlement, as well as the commission's partial approval of the Amended Stipulation, may not be cited as precedent by any Parties in future proceedings.

Insofar as Young Brothers has expressed its desire to submit a new application for a general rate case in 2019, Young Brothers may resubmit such matters for commission consideration in any forthcoming rate case.

However, as guidance for the Parties in future rate proceedings, the commission expresses its concern regarding the magnitude of the increases in Young Brothers' operating expenses, and Young Brothers must improve its efforts to control expenses.

For example, the commission notes its reservations regarding Young Brothers' existing practice for the jurisdictional allocation of expenses between its regulated intrastate and unregulated inter-state operations, as provided in its cost of service model.⁸ Where the consolidated operations are commingled and largely serviced by common equipment and labor, this may create a potential concern of regulated ratepayers absorbing the risk from the year-to-year shifting of revenue from the unregulated business.

The commission also notes its concern regarding Young Brothers' justifications to recover increasing amounts of corporate shared services that are allocated from its holding company. Young Brothers must consider any future requests in light of its representations in Docket No. 2013-0332, where the transfer

⁸See Young Brothers, Limited's Refiled Application, Exhibits, Direct Testimonies and Exhibits, Work Papers, Verification, and Certificate of Service, filed on March 16, 2018, at 10-11 (stating that "while both jurisdictional lines of business continue to decline, non-regulated interstate cargo volumes have declined more rapidly which manifests into a greater cost burden shouldered by the regulated intrastate structure").

of Young Brothers' outstanding stock from Foss Holdings, Inc. to Foss Maritime Company was approved by the commission.⁹

Finally, the commission finds that the examination of Young Brothers' performance metrics and standards provides beneficial information and will be monitored in Young Brothers' next general rate case. For reporting purposes, the required information shall continue to be filed in Docket No. 2013-0032.

THE COMMISSION ORDERS:

1. Young Brothers shall promptly file its revised tariff sheets and rate schedules for the commission's review and approval, which implement the Parties' stipulated increases in rates.

2. Before filing, Young Brothers shall allow the Consumer Advocate the opportunity to review the proposed tariff sheets and incorporate any pertinent comments from

⁹In re YOUNG BROTHERS, LIMITED, Docket No. 2013-0332, Decision and Order No. 31747, filed on December 16, 2013, at 7-9 (noting Young Brothers' representations that "the merger will simplify their corporate structure by reducing layers of management with respect to these Seattle-based entities and streamline decision-making[,] that the transaction will "be transparent to Young Brothers' customers" and "not result in any changes to its intrastate water carrier services, operations, or existing management or staff[,] that "the financial, managerial, and technical support that is currently provided by Saltchuk Resources, Inc., to Young Brothers will not change as a result of the proposed merger[,] and that "the subject transaction will not cause any changes in any allocation factors with its corporate affiliate" and "billing rates on which affiliates' allocated expenses are based will not change as a result of the proposed stock transfer" (formatting adjusted)).

the Consumer Advocate. Young Brothers' revised tariff sheets shall not take effect until affirmatively approved by the commission.

DONE at Honolulu, Hawaii FEB - 1 2019.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By James P. Griffin
James P. Griffin, Chair

By Jennifer M. Potter
Jennifer M. Potter, Commissioner

APPROVED AS TO FORM:

Caroline C. Ishida
Caroline C. Ishida
Commission Counsel

2017-0363.ljk

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail,
postage prepaid, and properly addressed to the following parties:

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